

# Inspector General

United States  
Department of Defense



Recovery Act Hospital Alteration Project  
at Naval Air Station Jacksonville

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## Acronyms and Abbreviations

AE	Architect and Engineering
FAR	Federal Acquisition Regulation
FBO	Federal Business Opportunities
NAVFAC	Naval Facilities and Engineering Command
NH	Naval Hospital
MILCON	Military Construction
OMB	Office of Management and Budget
PCAS	Post-construction Award Services
QMAAD	Quantitative Methods and Analysis Division
RLF	Rogers Lovelock & Fritz, Incorporated
SE	Southeast
SF	Square Feet
SOW	Statement of Work
TMA	TRICARE Management Activity



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

December 7, 2010

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (HEALTH  
AFFAIRS)

NAVAL INSPECTOR GENERAL  
COMMANDING OFFICER, NAVAL FACILITIES  
ENGINEERING COMMAND, SOUTH EAST

SUBJECT: Recovery Act Hospital Alteration Project at Naval Air Station Jacksonville  
(Audit Report No. D-2011-RAM-007)

We are providing this report for your information and use. We performed this audit in response to the requirements of Public law 111-5, "The American Recovery and Reinvestment Act of 2009," February 17, 2009. Although planning and project execution for the Recovery Act hospital alteration project was initially inadequate, officials at TMA and NAVFAC SE took corrective actions, consequently, the DoD has reasonable assurance that Recovery Act funds were used for the purposes intended.

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Michael Joseph at (757) 872-4698.

A handwritten signature in cursive script, reading "Alice F. Carey", is positioned above the printed name.

Alice F. Carey  
Assistant Inspector General  
Readiness, Operations, and Support







# Results in Brief: Recovery Act Hospital Alteration at Naval Air Station Jacksonville

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## What We Did

Our overall objective was to evaluate DoD's implementation of the "American Recovery and Reinvestment Act of 2009," February 17, 2009, (Recovery Act). Specifically, we reviewed the planning, funding, initial execution, and tracking and reporting of the Recovery Act hospital alteration project (a 50,752 square foot alteration costing \$27.2 million) at Naval Air Station Jacksonville to determine whether the efforts of TRICARE Management Activity (TMA) and Naval Facilities Engineering Command (NAVFAC) Southeast (SE) complied with the Act's requirements and subsequent related guidance.

## What We Found

Although planning and project execution for the Recovery Act hospital alteration project was initially inadequate, officials at TMA and NAVFAC SE took corrective actions, consequently, the DoD has reasonable assurance that Recovery Act funds were used for the purposes intended.

Initially, TMA personnel did not adequately support \$7.4 million in costs and 17,752 square feet of the 50,752 needed for the Recovery Act hospital alteration project. This occurred because TMA personnel did not update project documentation to support the need for additional cost and the need for additional square footage, and did not break out the Recovery Act project requirements separately from those for previously-planned MILCON projects. Although contracting personnel at NAVFAC SE announced and reported contracting actions on the appropriate Web sites, architecture and engineering-related contract actions initially failed to ensure the transparency of Recovery Act funds. This occurred because contracting personnel did

not clearly define requirements attributable to the Recovery Act hospital alteration project or separate those requirements from those for non-Recovery Act projects. As a result, TMA initially lacked reasonable assurance that Recovery Act funds were used for the purposes intended.

TMA personnel distributed planning and design and construction funds to NAVFAC for the Recovery Act hospital alteration project in a timely manner, and the funding authorization documents properly identified a Recovery Act designation. Additionally, contracting personnel at NAVFAC SE included the Federal Acquisition Regulation (FAR) clauses required by the Recovery Act in the AE design contract. Finally, the contractor, Rogers Lovelock & Fritz, Incorporated, reported the recipient information required by the Recovery Act.

## What We Recommend

Personnel at TMA and NAVFAC SE corrected all deficiencies identified during the course of our review. Therefore, this report makes no recommendations.

## Management Comments and Our Response

We considered management comments on a discussion draft of this report when preparing the final report. The Director, TMA and Commander, NAVFAC SE agreed with our results and conclusions in the discussion draft report, and corrective action is complete. We do not require additional comments.



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# Introduction

## Objective

Our overall objective was to evaluate DoD's implementation of Public Law 111-5, "American Recovery and Reinvestment Act of 2009," February 17, 2009. Specifically, we reviewed the planning, funding, initial execution, and tracking and reporting of the Recovery Act hospital alteration project at Naval Air Station Jacksonville to determine whether the efforts of TRICARE Management Activity (TMA) and Naval Facilities Engineering Command (NAVFAC) South East (SE) complied with the Act's requirements, Office of Management and Budget (OMB) Memorandum M-09-10, "Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009," February 18, 2009, and subsequent related guidance.

The Recovery Act and OMB guidance require projects to be monitored and reviewed. We grouped these requirements into the following four phases: (1) planning, (2) funding, (3) execution, and (4) tracking and reporting. See the appendix for a discussion of our scope and methodology.

## Background

In passing the Recovery Act, Congress provided supplemental appropriations to preserve and create jobs; promote economic recovery; assist those most impacted by the recession; provide investments to increase economic efficiency by spurring technological advances in science and health; and invest in transportation, environmental protection, and other infrastructure. The Recovery Act also established unprecedented efforts to ensure the responsible distribution of funds for its purposes and to provide transparency and accountability of expenditures by informing the public of how, when, and where tax dollars were being spent. Further, the Recovery Act states that the President and heads of the Federal departments and agencies were to expend these funds as quickly as possible, consistent with prudent management.

DoD received approximately \$7.16 billion<sup>1</sup> in Recovery Act funds for projects that support the Act's purposes. In March 2009, DoD released expenditure plans for the Recovery Act, which listed DoD projects that will receive Recovery Act funds. The Assistant Secretary of Defense (Health Affairs) received \$1.33 billion of Recovery Act funds for Defense-wide hospital construction. TMA allocated \$118.6 million to Project 74688, "Planning and Design," which funded the planning and design efforts for three Recovery Act hospital projects. Of the \$118.6 million, TMA allocated \$1.09 million to Project 65199, the Recovery Act hospital alteration project, to support its Architect and Engineering (AE) efforts and planned to allocate the remaining funds to support the AE efforts for Project 74650 "Hospital Replacement Phase I, "Fort Hood, Texas; and Project 71653 "Hospital Replacement," Camp Pendleton, California.

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<sup>1</sup> DoD originally received \$7.42 billion; however, Public Law 111-226, Title III, "Rescissions," rescinded \$260.5 million on August 10, 2010. The \$7.16 billion does not include \$4.6 billion for U.S. Army Corps of Engineers civil works projects.

We are also reviewing those Recovery Act-funded projects and will address them in upcoming reports. As part of those reviews, we will continue to monitor the use of the \$118.6 million in “planning and design” funds allocated from Project 74688. Additionally, TMA allocated \$27.2 million in construction funds to Project 65199, “Hospital Alteration,” at Naval Air Station Jacksonville.

For the purposes of this audit, we consider AE efforts using funds from Project 74688, “Planning and Design,” to support the planning efforts for Project 65199, “Hospital Alteration,” at Naval Air Station Jacksonville; therefore, we consider the projects to be interrelated. As a result, we will report on both projects together, referring to them as the Recovery Act hospital alteration project. See additional information in the appendix.

### ***Naval Hospital Jacksonville***

Naval Air Station Jacksonville is a master air and industrial base that provides operational and logistical support for U.S. operating and allied forces worldwide, and for more than 100 tenant activities and other commands. As a support function to the Naval Air Station, Naval Hospital (NH) Jacksonville provides a wide range of general and specialized healthcare services treating over 400,000 outpatients and admitting about 10,000 inpatients yearly.

NH Jacksonville is an eight-story facility constructed in 1967. A planned FY 2005 addition and alteration project was to provide modern operating rooms, contemporary obstetrical suites, and code-compliant elevators. In 2005, due to significant cost escalations, TMA personnel split the original addition and renovation project into two phases; a FY 2005 military construction (MILCON) addition project and a 33,000 square feet (SF) FY 2007 renovation project. TMA used funds from the renovation project to address overruns for the FY 2005 MILCON addition project, thereby leaving the 33,000 SF FY 2007 renovation project unfunded. With the implementation of the Recovery Act, TMA received funds to complete the previously unfunded FY 2007 renovation project, referred to in this report as the Recovery Act hospital alteration project.

### ***Project Support***

NAVFAC SE supported TMA by providing contracting and project management services. These services included awarding contracts for the Recovery Act hospital alteration project and assigning project managers to oversee the contracted work.

### **Review of Internal Controls**

DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness in the administration of the Recovery Act project as defined by DoD Instruction 5010.40. Initially, TMA and NAVFAC SE personnel did not provide adequate internal controls over the planning and contract execution efforts for the project. We discuss these issues in detail in the Audit Results section of this report. Because officials at TMA and NAVFAC SE later corrected all the deficiencies we identified

during the course of our review, this report contains no recommendations. We will provide a copy of the report to the senior officials responsible for internal controls at TMA and NAVFAC SE.

## Audit Results

Initially, TMA personnel ensured neither that the square footage needed for the Recovery Act hospital alteration project was properly planned nor that costs were adequately supported. Additionally, AE contracting actions by personnel at NAVFAC SE did not ensure transparency of Recovery Act funding. As a result, TMA lacked reasonable assurance that Recovery Act funds were used for the purposes intended. However, during the audit, officials at TMA and NAVFAC SE took action to address and correct these deficiencies.

TMA personnel distributed planning and design and construction funds to NAVFAC for the Recovery Act hospital alteration project in a timely manner, and the funding authorization documents properly identified a Recovery Act designation. Additionally, contracting personnel at NAVFAC SE included the Federal Acquisition Regulation (FAR) clauses required by the Recovery Act in the AE design contract. Finally, contracting personnel at NAVFAC SE announced and reported contracting actions on the required Web sites and the contractor, Rogers Lovelock & Fritz, Incorporated (RLF), reported the recipient information required by the Recovery Act.

### **Planning: Initially, Project Not Adequately Planned or Supported, But Corrective Action Taken**

Initially, TMA personnel did not ensure the entire size of the Recovery Act hospital alteration project or its costs were properly planned and supported to ensure appropriate use of Recovery Act funds. DD Form 1391, "Military Construction Project Data," lacked cost support, and TMA personnel failed to prepare a valid economic analysis to justify the total SF requirements and costs. This occurred because TMA personnel did not update project documentation to support the need for an additional \$7.4 million in costs and the additional 17,752 square feet needed for the project, and did not break out the Recovery Act project requirements separately from those for previously planned MILCON projects. Additionally, NAVFAC SE did not properly address National Environmental Policy Act requirements for the Recovery Act hospital alteration project. This occurred because NAVFAC SE relied on a May 2007 categorical exclusion that did not include the Recovery Act hospital alteration project in its justification. As a result of our review, officials at TMA and NAVFAC SE took action to address and correct these deficiencies.

*Initially, TMA personnel did not ensure the entire size of the Recovery Act hospital alteration project or its costs were properly planned and supported to ensure appropriate use of Recovery Act funds... Officials at TMA took action to address and correct these deficiencies.*

### **DD Forms 1391 Lacked Cost Support and Economic Analysis Was Incomplete**

TMA approved DD Form 1391, March 2009, for alteration of 50,752 SF, with an estimated cost of \$27.2 million of which \$21.7 million was attributed to the primary facility. Based on the submission of DD Form 1391, Congress funded the project with Recovery Act funding.

As support for DD Form 1391, TMA personnel provided an economic analysis, December 2006, that included requirements for both the original FY 2005 MILCON project and the FY 2007 MILCON renovation project. The 2006 economic analysis supported a hospital renovation project of 33,000 SF, with a primary facility cost of \$14.3 million, not 50,752 SF, with a primary facility cost of \$21.7 million. Without an economic analysis to justify the additional 17,752 square feet, or support for the additional \$7.4 million in costs, TMA lacked assurance Recovery Act funds were used for the purposes intended.

Additionally, Navy Medicine East personnel provided an economic analysis dated June 25, 2009; however, it did not comply with DoDI 6015.17 or DoDI 7041.3, as it addressed only four of the seven key elements in determining the most efficient and effective use of resources. The economic analysis lacked a cost and benefit determination, comparison and ranking of alternatives, and a sensitivity analysis. Moreover, the economic analysis lacked health care facility requirements including workload trends, population characteristics, and consideration of personnel and financial resources. Finally, the economic analysis was dated after the project received Recovery Act funding.

NAVFAC SE personnel also used an unapproved and incorrect version of DD Form 1391, July 6, 2009, in their contracting acquisition plan, and that DD Form 1391 cited renovations of 51,942 SF with an estimated cost of \$23.1 million. TMA approved neither the increase in size (51,942 SF versus 50,752 SF) nor the reduction in cost (\$23.1 million versus \$27.2 million). In addition, DD Form 1391, July 6, 2009, omitted some required elements, including costs for evidence-based design or those for sustainable design and development. TMA officials stated that this version was not approved and should not have been used in the planning of the project.

### ***National Environmental Policy Act Study***

OPNAVINST 5090.1C, "Environmental Readiness Program Manual," October 30, 2007, requires the Navy to comply with the National Environmental Policy Act and to assess the environmental consequences of proposed actions that could affect the quality of the environment. NAVFAC SE personnel provided neither a National Environmental Policy Act study impact statement nor a categorical exclusion to support the Recovery Act hospital alteration project. NAVFAC SE personnel provided a categorical exclusion, May 2007, for a three-story hospital addition and renovation of the existing hospital's sixth floor. However, the Recovery Act hospital alteration project included renovations to multiple floors within the existing NH Jacksonville structure which were not included in the May 2007 categorical exclusion.

### ***Management Corrective Action***

As a result of our audit, TMA personnel used current data on patient workload and medical personnel staffing to revalidate the square footage requirements for the Recovery Act hospital alteration project. This revalidation effort supported the need for additional square footage as approved in the Recovery Act DoD MILCON Program Plan.

Additionally, during our site visit, personnel at NAVFAC SE took corrective action to prepare a categorical exclusion specifically for the Recovery Act hospital alteration project.

Although program costs were not updated, according to FAR 15.305-1, “Proposal Evaluation,” competition normally establishes price reasonableness, and when contracts are awarded on a firm-fixed-price basis, the proposed price usually satisfies the requirement to perform a price analysis. Under the contract, the construction solicitation for the Recovery Act hospital alteration project was subject to full and open competition, and personnel at NAVFAC SE received eight firm-fixed-price proposals. Because multiple proposals were submitted and competition can establish price reasonableness, we believe the risk associated with the lack of supporting documentation for the cost estimate was mitigated and should not impede project implementation.

## **Funding: TRICARE Management Activity Properly Distributed Recovery Act Funds**

TMA personnel distributed planning and design funds to NAVFAC for the Recovery Act hospital alteration project in a timely manner, and the funding authorization documents properly identified a Recovery Act designation. In April 2009, TMA personnel transferred \$1.09 million of the \$118.6 million from Project 74688, “Planning and Design” and \$27.2 million from Project 65199 to NAVFAC personnel for AE design services and construction, respectively. All funding documents properly cited Treasury Appropriation Fund

*TMA personnel distributed planning and design funds to NAVFAC for the Recovery Act hospital alteration project in a timely manner, and the funding authorization documents properly identified a Recovery Act designation.*

Symbol 97 0501, “Military Construction-Recovery Act, Defense-Wide” appropriation.

Contracting personnel at NAVFAC SE awarded task order JM06 in April 2009 on contract N62470-06-D-6011 and subsequent modifications, and obligated \$614,151 and an additional \$41,562 (in-house administrative costs) in planning and design funds to the project, leaving approximately \$434,287 (\$1.09 million minus \$655,713) in potential bid savings. In December 2009, contracting personnel awarded the construction contract N69450-10-C-1258 and subsequent modifications for \$8.22 million, resulting in approximately \$19 million (\$27.2 million minus \$8.2 million) in additional bid savings. Personnel at NAVFAC HQ are in the process of transferring unused planning and design funds back to TMA.

Because TMA personnel also allocated part of the \$118.6 million from Project 74688 “Planning and Design” to support hospital replacement projects at Fort Hood, Texas, and Camp Pendleton, California, officials at TMA plan to reevaluate the unused funds when the other two MILCON projects are awarded. TMA officials stated that they plan to work with personnel from the Office of the Secretary of Defense (Comptroller) to reallocate unused MILCON funds to other Recovery Act projects. We will continue to



monitor the use of the planning and design funds and construction funds as our review of the Fort Hood and Camp Pendleton hospital Recovery Act projects progresses.

## **Project Execution: Transparency of Recovery Act Funding Initially Inadequate, But Corrective Action Taken**

Although NAVFAC SE personnel solicited and awarded a task order from a competitively awarded contract to an approved contractor, and included all FAR clauses applicable to the Recovery Act in the task order, AE contract actions did not ensure transparency of Recovery Act funding. This occurred because personnel at NAVFAC SE did not clearly define requirements attributable to the hospital alteration project funded by the Recovery Act and separate the requirements from those for non-Recovery Act projects. As a result, TMA lacked reasonable assurance that Recovery Act funds were used for intended purposes. As a result of our review, officials at NAVFAC SE took corrective action.

### ***Existing AE Contract Originally Competed and Announced, FAR Clauses for Recovery Act Included***

Contracting personnel at NAVFAC SE awarded the AE design contract on task order JM06 at a firm-fixed-price from contract N62470-06-D-6011 to RLF on April 22, 2009. The original contract, competed in 2006 by NAVFAC Atlantic, was an existing AE Indefinite Quantity Contract for medical projects. Because RLF had already designed the FY 2005 MILCON project and a portion of the FY 2007 renovation project (now the Recovery Act hospital alteration project), NAVFAC SE awarded design work for the latter project to the same contractor. RLF was properly registered in the Central Contractor Registration and was not listed in the Excluded Parties List System. Initially, contracting personnel at NAVFAC SE included all of the FAR clauses required by the Recovery Act except FAR 52.215-2, "Audit and Records Negotiation (Mar 2009)." NAVFAC SE modified the task order on June 28, 2009, to include the missing Recovery Act clause.

OMB Memorandum M-09-15, "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009," April 3, 2009, describes requirements for reporting Recovery Act-funded actions in the Federal Procurement Data System and publicizing actions on the Federal Business Opportunities (FBO) Web site. Contracting personnel properly announced the solicitation and award on [www.fbo.gov](http://www.fbo.gov) and reported the contract award in the Federal Procurement Data System.

### ***Unclear and Conflicting Statements of Work in Same Task Order***

Task order JM06 for AE design services of the Recovery Act project referenced a Statement of Work (SOW) that was unclear and included requirements for both the Recovery Act hospital alteration project and the FY 2005 MILCON addition project. The task order referenced a 2006 SOW, which limited the project to 33,000 square feet. The task order also attached a revised version of the September 30, 2002, SOW which reverted back to the full scope of a combined FY 2005 MILCON addition/alteration and

provided a break out for 43,703 square feet of alterations, when the Recovery Act hospital alteration project required 50,752 square feet.

### ***Mixing Recovery Act Funds and Non-Recovery Act Funds on Task Order Modification***

On August 13, 2009, NAVFAC SE personnel issued a contract modification to task order JM06 that obligated \$212,144.41 of FY 2009 Recovery Act funding and \$50,962.97 of FY 2007 MILCON funding on the same task order. The modification did not reference the original 2006 SOW cited in the award of task order JM06, but included revisions to the requirements generated from a 2002 SOW and a 2009 SOW. The revised 2002 SOW included provisions for moving the otolaryngology department to the fifth floor and making minor improvements to the old surgical suites. The 2009 SOW included requirements for topographical and geotechnical surveys supporting an outpatient drop-off canopy and parking lot repairs originally planned for the FY 2005 MILCON addition. As a result of combining the Recovery Act hospital alteration project and the non-Recovery Act project on the same task order, NAVFAC SE personnel could not identify or allocate the correct funds for AE services delivered, and used Recovery Act funding to pay for \$49,241.77 in services related to the FY 2005 MILCON addition not funded by the Recovery Act.

### ***Potential Duplicate Design Services***

Contracting personnel at NAVFAC-SE contracted for some of the same AE design services in support of the Recovery Act hospital alteration project (task order JM06 of contract N62470-06-D-6011) that were previously awarded for the FY 2007 renovation project on contract N62467-01-D-0328. On May 18, 2007, NAVFAC South awarded task order D0004 of contract N62467-01-D-0328 to obligate \$402,010 from FY 2006 and FY 2007 MILCON funding for 100 percent design of the FY 2007 renovation project, which later became the Recovery Act hospital alteration project. NAVFAC SE personnel stated that NAVFAC South issued a verbal stop work order to RLF to suspend design work on the FY 2007 renovation project; however, the contract files contained no documentation to support the stop work order.

On April 22, 2009, NAVFAC SE awarded task order JM06 of contract N62470-06-D-6011 to obligate \$402,010 for 100 percent design of the Recovery Act hospital alteration project. The contractor submitted \$32,160.80 worth of invoices for design services 12 days after the contract award; however, NAVFAC SE never paid the invoices, and the contractor resubmitted the invoices for payment 4 months later. On June 15, 2009, NAVFAC SE awarded task order D0004 to modify and de-obligate the \$402,000 from the May 2007 award. Contract modification language stated that “the funds were never billed against and were moved to contract N62470-06-D-6011-JM06.” We believe that NAVFAC SE personnel may have used Recovery Act funds to pay for AE design services provided prior to the Recovery Act hospital alteration project.

Officials at NAVFAC SE maintained that no Recovery Act funding was used to pay for AE design services performed prior to the Recovery Act hospital alteration project and that the Government did not direct the contractor to proceed with design before it issued

the task order. NAVFAC SE further stated that the AE design was required to be completed within 91 days of award of the task order, which they considered a fast turnaround time. NAVFAC SE calculated that 16 days into the contract, the project should be 17.6 percent complete, and that the contract was worth an AE rate of \$4,471.58 per day. Based on the calculation, 16 days into the contract, RLF would have performed \$70,681.32 worth of design services. Furthermore, NAVFAC SE personnel stated the invoice RLF submitted for \$32,160.80 (but not paid by the Government) was much less than the \$70,681.32<sup>2</sup>. Contracting personnel at NAVFAC SE stated the billing reflects a reasonable level of effort, given the aggressive design timelines. Finally, they stated if RLF completed any design work prior to receipt of the task order, the contractor did so at its own risk, presumably because it anticipated an aggressive schedule due to the urgency of the Recovery Act program. We considered NAVFAC SE's explanation reasonable and therefore make no recommendations on this issue.

### ***Inappropriate Use of Planning and Design Funds***

Finally, NAVFAC SE personnel used Recovery Act MILCON funds from the planning and design project instead of those for the construction project to award Post-construction Award Services (PCAS). When NAVFAC SE personnel awarded task order JM06, they used funds allocated to the planning and design project to obligate \$65,914 for consultation (PCAS); \$64,337 for submittal review (PCAS); and \$24,520 for record drawings (PCAS).

### ***Management Corrective Actions***

As a result of our audit, NAVFAC SE rewrote the SOW and modified task order JM06 for the Recovery Act hospital alteration project to clearly define only Recovery Act requirements. NAVFAC SE and RLF bilaterally agreed to the modification. NAVFAC SE personnel also modified task order JM06 to de-obligate any requirements attributable to the FY 2005 MILCON addition and the FY 2007 MILCON funding associated with those requirements, and issued those requirements on a new, non-Recovery Act-funded task order. Additionally, NAVFAC SE officials issued guidance to identify and appropriately allocate lines of accounting when certifying and paying contractor invoices. NAVFAC SE personnel also corrected the improper payments. Finally, NAVFAC SE personnel modified the task order to obligate construction funds instead of planning and design funds.

## **Tracking and Reporting: Recipient Reported Information Required by the Recovery Act**

The contractor, RLF, reported the recipient information required by the Recovery Act. RLF reported the number of jobs, provided a brief summary of the delivery order, and reported the contract value for the AE design contract to [www.recovery.gov](http://www.recovery.gov).

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<sup>2</sup> NAVFAC SE provided a response to support a 16 day invoice period rather than a 12 day period. Based on NAVFAC SE's daily AE rate of \$4,471.58, 12 days into the contract equates to 13.2% of contract completion and \$53,010.96 in AE services rendered. The value of services rendered for the 12 day invoicing period is still greater than what the contractor originally submitted.

## **Conclusion**

Initially, TMA personnel ensured neither that the amount of space needed for the Recovery Act hospital alteration project was properly planned nor that costs were adequately supported; and contracting personnel at NAVFAC SE did not ensure transparency of Recovery Act funding in AE contracting actions. However, during our review, officials at TMA and NAVFAC SE took corrective action to address the issues we identified during our audit. As a result, DoD has reasonable assurance Recovery Act funds were used for the purposes intended.

Additionally, TMA personnel distributed planning and design and construction funds to NAVFAC for the Recovery Act hospital alteration project in a timely manner, and the funding authorization documents properly identified a Recovery Act designation. Additionally, contracting personnel at NAVFAC SE included the Federal Acquisition Regulation (FAR) clauses required by the Recovery Act in the AE design contract. Also, the contractor, RLF, reported the recipient information required by the Recovery Act. As a result of corrective action taken by management, this report makes no recommendations. We will continue to monitor actions taken by TMA as they reprogram the bid savings realized on hospital MILCON projects.

## Appendix. Scope and Methodology

We conducted this audit from June 2009 through October 2010 in accordance with generally accepted government auditing standards. Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report addresses: MILCON Project 65199, “Hospital Alteration,” \$27.2 million, and MILCON Project 74688, “Planning and Design,” \$118.6 million, of which TMA personnel allocated \$1.09 million to the Recovery Act hospital alteration project.

To review DoD’s implementation of plans for the Recovery Act, we audited the planning, funding, initial project execution, and tracking and reporting of the AE portion of the Recovery Act hospital alteration project to ensure personnel at TMA and NAVFAC SE complied with Recovery Act and subsequent related guidance. Specifically, we determined whether:

- the selected projects were adequately planned to ensure the appropriate use of Recovery Act funds (Planning);
- funds were awarded and distributed in a prompt, fair, and reasonable manner (Funding);
- contracts awarded were transparent, competed, and contained required Recovery Act Federal Acquisition Regulation clauses (Project Execution); and
- recipients’ use of funds was transparent to the public and the benefits of the funds were clearly, accurately, and timely reported (Reporting).

Due to the timing of our review and the delay in the construction contract award, we did not review—and will not report on—either the project execution and contracting actions or the tracking and reporting for the construction portion of the Recovery Act hospital alteration project in this report.

We conducted interviews and collected, reviewed, and analyzed documents from NAVFAC personnel (project manager, contract specialist, operations, and acquisition officers), as well as TMA and Navy Medicine East personnel. We reviewed requirements, justifications, and cost documentation supporting the DD Forms 1391 “Military Construction Project Data,” funding and accounting documents, acquisition plans, solicitations, and contract documentation to include architectural and engineering design contracts N62467-01-D-0328 and N62470-06-D-6011.

Although, design contract N62467-01-D-0328 was outside the scope of our Recovery Act work, we reviewed it to determine whether design services were already under contract for the Recovery Act hospital alteration project. Finally, we reviewed Federal, DoD, TMA, and Navy guidance and compared this guidance to our audit results.

## **Use of Computer-Processed Data**

We relied on computer-processed data from the FBO Web site, the FPDS—Next Generation, E-projects, Facilities Information System, and the Navy Electronic Commerce On-line. FBO is a single, government-wide point-of-entry for Federal Government procurement opportunities. FPDS—Next generation is a dynamic, real-time database where contracting officers can update data to include new actions, modifications, and corrections. E-projects is a system which Web-enables all projects and tasks for businesses, automating many manual processes and promoting efficient sharing of knowledge. Facilities Information System is an online interactive database management system, which supports NAVFAC's Facilities Acquisition and Facilities Management processes. Navy Electronic Commerce On-line is the Navy's Web-based system for electronic exchange of solicitations, offers, and awards. We compared data generated by each system with the DoD expenditure plans, funding authorization documents, and contracting documentation to support the audit conclusions. We determined that the data were sufficiently reliable for our audit purposes.

## **Use of Technical Assistance**

Before selecting DoD Recovery Act projects for audit, the Quantitative Methods and Analysis Division (QMAD) of the DoD Office of Inspector General analyzed all DoD agency-funded projects, locations, and contracting oversight organizations to assess the risk of waste, fraud, and abuse associated with each. QMAD personnel selected most audit projects and locations using a modified Delphi technique, which allowed QMAD to quantify the risk based on expert auditor judgment and other quantitatively developed risk indicators. They used information collected from all projects to update and improve the risk assessment model. QMAD personnel initially selected 83 projects with the highest risk rankings with auditors choosing some additional projects at the selected locations.

QMAD personnel did not use classical statistical sampling techniques that would permit generalizing results to the total population because there were too many potential variables with unknown parameters at the beginning of this analysis. The predictive analytic techniques employed provided a basis for logical coverage of Recovery Act dollars being expended, but also of types of projects and types of locations across the Military Services, Defense agencies, State National Guard units, and public works projects managed by U.S. Army Corps of Engineers.

## **Prior Coverage**

The Government Accountability Office, the Department of Defense Inspector General, and the Military Departments have issued reports and memoranda discussing DoD projects funded by the Recovery Act. You can access unrestricted reports at <http://www.recovery.gov/accountability>.





# Inspector General Department of Defense

